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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



DARLENE GREEN
Comptroller

Internal Audit Section

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January 30, 2009

John Zakibe, Deputy Comptroller
Office of the Comptroller
City Hall
1200 Market Street, Room 311
St. Louis, MO 63103-2806

RE: Magnetic Ink Character Recognition (MICR) Laser Check Solution
(Project #2007-6)

Dear Mr. Zakibe:

Enclosed is a report of our review of the MICR Laser Check Solution implementation at Accounting Services/Accounts Payable, Office of the Comptroller.

The objectives of the review were to ensure:

- Accomplishment of objectives and goals of MICR Laser Check Solution
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial information
- Reliability and integrity of operational information
- Economic and efficient use of resources

Our fieldwork was completed on June 17, 2008. Management's responses were received on January 27, 2009 and have been incorporated into the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact Internal Audit Section at (314) 622-4723.

Sincerely,

A handwritten signature in black ink that reads "Kenneth M. Stone". The signature is written in a cursive, flowing style.

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Kerri Brown, Manager, Accounting Services/Accounts Payable - Office of the
Comptroller



CITY OF ST. LOUIS

OFFICE OF THE COMPTROLLER

ACCOUNTING SERVICES/ACCOUNTS PAYABLE

*REVIEW OF MAGNETIC INK CHARACTER RECOGNITION (MICR)
LASER CHECK SOLUTION IMPLEMENTATION
SPECIAL REVIEW
SEPTEMBER 30, 2008*

PROJECT #2007-6

DATE ISSUED: JANUARY 30, 2009

*Prepared by:
The Internal Audit Section*



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
OFFICE OF THE COMPTROLLER
ACCOUNTING SERVICES/ACCOUNTS PAYABLE
REVIEW OF MICR LASER CHECK SOLUTION IMPLEMENTATION
SPECIAL REVIEW
SEPTEMBER 30, 2008**

EXECUTIVE SUMMARY

Purpose

The audit objectives of the review were to ensure:

- Accomplishment of objectives and goals of MICR Laser Check Solution
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial information
- Reliability and integrity of operational information
- Economic and efficient use of resources

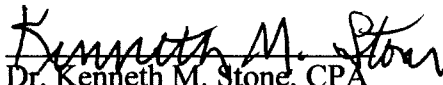
Conclusion

The opportunity exists, for the Accounting Services/Accounts Payable, Office of the Comptroller to make certain improvements in controls over activities. The following are observations resulting from our review:

1. Opportunity to document MICR Laser Check Solution procedures
2. Opportunity to use security embedded check stock
3. Opportunity to restrict physical access to check printing

Each of these observations is discussed in more details in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

This review was made under authorization contained in Section 2, Article XV of the Charter, city of St. Louis, as revised and has been conducted in accordance with the *International standards for the Professional Practice of Internal Auditing*.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive

2/3/09
Date

**CITY OF ST. LOUIS
OFFICE OF THE COMPTROLLER
ACCOUNTING SERVICES/ACCOUNTS PAYABLE
REVIEW OF MICR LASER CHECK SOLUTION IMPLEMENTATION
SPECIAL REVIEW
SEPTEMBER 30, 2008**

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INTRODUCTION

Background

Accounts Payable, a unit within the Accounting Services Section, Office of the Comptroller is responsible for reviewing, processing and paying the City bills for goods and services received.

Office of the Comptroller installed MICR Laser Check Solution to ensure an economic and efficient use of resources and to improve internal controls over the accounts payable check printing process.

Purpose

The objectives of the review were to ensure:

- Accomplishment of objectives and goals of MICR Laser Check Solution
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial information
- Reliability and integrity of operational information
- Economic and efficient use of resources

Scope and Methodology

On September 19, 2007, the Office of the Comptroller implemented the MICR Laser Check Solution for processing the accounts payable checks.

The Internal Audit Section observed the implementation, made inquiries to determine the adequacy of internal controls over the MICR Laser Check Solution process and its equipment. Internal Audit also reviewed the license agreement between the City of St. Louis (Licensee) and the Payformance Corporation (Vendor) for the Vendor's compliance with the terms and conditions of the contract agreement.

Exit Conference

An exit conference meeting was not considered necessary by the Accounting Services/Accounts Payable management.

Management's Responses

Management's responses were received on January 27, 2009 and have been incorporated into the report.

OBSERVATIONS

Summary of Current Observations

The opportunity exists, for the Accounting Services/Accounts Payable to improve internal controls over accounts payable check processing activities. The following are observations resulting from our review:

1. Opportunity to document MICR Laser Check Solution procedures
2. Opportunity to use security embedded check stock
3. Opportunity to restrict physical access to check printing

Each of these observations is discussed in more detail in the *Detailed Observations and Recommendations* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity to Document MICR Laser Check Policies & Procedures

Written policies and procedures codify management's criteria for executing an organization's operations. They document business processes, personal responsibilities, departmental operations, and promote uniformity in executing and recording transactions. Thorough policies and procedures serve as effective training effective training tools for employees.

Accounting Services/Accounts Payable has not documented the daily laser check printing procedures. The procedures should define level of authority and duties and responsibilities for the laser check printing process including:

- Daily review and approval of the accounts payable information received from the City's Information Technology Service Agency (ITSA)
- Authorization of check printing
- Review, approval and mailing of checks to vendors
- Submission of the list of checks issued to the bank prior to their mailing
- Cancellation and re-printing of checks
- Manual printing of checks when required

If written policies and procedures do not exist, are inaccurate, incomplete, or simply not current the following could occur:

- Inaccurate and unreliable financial information generated because of the inappropriate recording of transactions
- Inconsistent practice among employees
- Processing errors because of a lack of knowledge

Recommendation

It is recommended the Accounting Services/Accounts Payable develop written polices and procedures that:

- Document procedures for the daily laser printing of check
- Establish approving authority for cancellation and re-printing of checks
- Establish approving authority and circumstances for manual printing of special request checks
- Establish approving authority and circumstances for manual printing of special request checks
- Are approved by the Comptroller/Deputy Comptroller and copies are made available to the employees involved with the check printing process
- Are reviewed and updated periodically

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Continued...

Management's Response

We will document new procedures for laser printing of checks and update procedure manual accordingly.

2. Opportunity to Use Security Embedded Check Stock

Blank check embedded with security features (safety check stock) may prevent misappropriation of funds through counterfeiting (faked checks) and tampering (unauthorized changes on checks) among others.

The initial stock of safety checks was supplied by the vendor (Payformance Corporation). Subsequent stocks were obtained through the Multigraph Section of the City's Supply Division.

Current supplies of check printing documents are purchased from office supplies stores who have supply contract agreements with the City's Supply Division and may not contain all of the security features that are incorporated into the safety check stocks.

Failure to ensure adequate security on check documents may increase the risk of fraud through check counterfeiting and tampering.

Recommendation

We recommend the Accounting Services/Accounts Payable ensure that the security features embedded on blank paper stock be adequate to prevent possible embezzlement of funds through counterfeiting and tampering of checks.

Such security features, not embedded on the blank paper stock sold by office supplies stores, may include such features as:

- Real or artificial watermark
- Chemical reactant "void"
- Laser check coating
- Copy protection
- Heat-sensitive thermo chromic ink

In addition, it is recommended that the Accounting Services/Accounts Payable also review the check design with designated banks at least once a year.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

2. Continued...

Management's Response

The check stock used by Comptroller's Office does contain several security features as you suggested. Attached is a summary of the features the check stock contains.

3. Opportunity to Restrict Physical Access to Check Printing Equipment

Proper control over physical access to the printing equipment will prevent unauthorized usage of the equipment and access to the printed checks.

The printing equipment is located in a room where physical access is not restricted to the accounts payable employees only who are responsible for printing of the checks only.

Failure to properly secure physical access of the laser printing equipment to authorized personnel only may increase the risk of fraud through unauthorized use of the printer and access to the printed checks.

Recommendation

It is recommended that access to the check printing equipment and the printed check should be restricted to individual designated to perform the check printing functions.

Management's Response

Access to the printer alone will not enable anyone to use the check writing system. In order to access the system, a key has to be used. The key is kept in the Deputy Comptroller's Office, which is locked when the Deputy is not in the office. Only those authorized access have a key to the Deputy Comptroller's office.